



Prosperity International Holdings (H.K.) Limited

昌興國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)



Third Quarterly Report

2001

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This report, for which the directors of Prosperity International Holdings (H.K.) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to Prosperity International Holdings (H.K.) Limited. The

directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: i. the information contained in this report is accurate and complete in all material respects and not misleading; ii. there are no other matters the omission of which would make any statement in this report misleading; and iii. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Unaudited turnover decreased by approximately HK\$18,279,000 for the nine months ended 31st December 2001 representing a decrease of approximately 16.56% as compared to the corresponding period in 2000.
- Achieved an unaudited net profit of approximately HK\$4,374,000 for the nine months ended 31st December 2001.
- The Board of Directors (the “Board”) of Prosperity International Holdings (H.K.) Limited (the “Company”) does not recommend the payment of an interim dividend for the nine months ended 31st December 2001.

QUARTERLY RESULTS (UNAUDITED)

The Board of the Company is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the three months and the nine months ended 31st December 2001 together with the comparative figures for the corresponding periods ended 31st December 2000 as follows:

	<i>Notes</i>	For the three months ended 31st December		For the nine months ended 31st December	
		2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover	3	30,232	37,608	92,105	110,384
Cost of sales		(22,653)	(27,091)	(69,606)	(80,193)
Gross profit		7,579	10,517	22,499	30,191
Other revenue		172	274	623	504
Selling expenses		(1,178)	(870)	(2,615)	(1,965)
Administrative expenses		(4,153)	(2,843)	(10,416)	(8,348)
Profit from operating activities		2,420	7,078	10,091	20,382
Finance costs		(1,140)	(704)	(3,337)	(1,857)
Profit before tax		1,280	6,374	6,754	18,525
Tax	4	(411)	(829)	(1,891)	(2,485)
Profit before minority interests		869	5,545	4,863	16,040
Minority interests		(103)	(309)	(489)	(1,227)
Net profit from ordinary activities attributable to shareholders		<u>766</u>	<u>5,236</u>	<u>4,374</u>	<u>14,813</u>
Dividends		<u>–</u>	<u>–</u>	<u>–</u>	<u>5,700</u>
Earnings per share	5				
– Basic (in cents)		<u>0.16 cents</u>	<u>1.45 cents</u>	<u>1.03 cents</u>	<u>4.11 cents</u>
– Diluted (in cents)		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes:

1. Group Reorganization and Basis of Presentation

The Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda as an exempted company with limited liability on 17th August 2000 . Pursuant to a group reorganization (the "Reorganization") in preparation for the listing of the Company's shares (the "Shares") on GEM, the Company acquired the entire issued share capital of Profit World Ventures Limited and became the holding company of the Group on 22nd March 2001. Details of the Reorganization are set out in the prospectus of the Company dated 24th July 2001 (the "Prospectus"). The Shares were listed on GEM of the Stock Exchange on 2nd August 2001.

The unaudited consolidated results of the Group for the three months and the nine months ended 31st December 2001 include the results of the Company and all of its subsidiaries for the three months and the nine months ended 31st December 2001.

The comparative unaudited combined results have been prepared using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries prior to the date of their acquisition pursuant to the Reorganization on 22nd March 2001. Accordingly, the unaudited combined results of the Group for the three months and the nine months ended 31st December 2000 include the results of the Company and its subsidiaries with effect from 1st April 2000 as if the current Group structure has been in existence throughout the nine months ended 31st December 2000.

In the opinion of the Directors, the unaudited combined results prepared on the above basis present more fairly the results of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated on consolidation/combination.

2. Principal Accounting Policies

The principal accounting policies adopted in preparing the unaudited consolidated/combined results are in conformity with Hong Kong Statements of Standard Accounting Practice and accounting principles generally accepted in Hong Kong. The unaudited consolidated results have been prepared under the historical cost convention except for the remeasurement of leasehold land and buildings.

3. Turnover

Turnover represents the net invoiced value of goods sold, net of value added tax ("VAT"), after allowances for returns and trade discounts where applicable. All significant inter-group transactions have been eliminated on consolidation/combination.

4. Tax

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits arising in Hong Kong for the three months and the nine months ended 31st December 2001 and the corresponding periods in 2000.

The Group's subsidiary operating in the People's Republic of China (the "PRC"), Guangzhou Xingda Decorative Sheets Co., Ltd. ("GXDS"), is exempted from PRC income tax for two years from its first profit-making year of operations and thereafter is eligible for 50% relief from income tax for the following three years under the Income Tax Law of the PRC. The first profit-making year of GXDS was the year ended 31st December 1996. The current tax rate that is applicable to GXDS is 24% (2000: 12%).

No deferred tax has been provided for the Group as there were no significant timing differences as at 31st December 2001 (2000: Nil).

5. Earnings per share

The calculation of basic earnings per share for the three months and the nine months ended 31st December 2001 is based on the unaudited net profit from ordinary activities attributable to shareholders for the respective periods of approximately HK\$766,000 and HK\$14,813,000 (2000: approximately HK\$5,236,000 and HK\$14,813,000 respectively) and the weighted average of approximately 480,000,000 and 426,327,000 ordinary shares of the Company in issue during the three months and the nine months ended 31st December 2001 respectively (pro forma number of shares in issue for the three months and the nine months ended 31st December 2000: 360,000,000).

No diluted earnings per share has been presented as the Company has no dilutive potential ordinary shares during the three months and the nine months ended 31st December 2001 and the corresponding periods ended 31st December 2000.

6. Movement of reserves

	Share premium HK\$000	Contributed surplus HK\$000	Goodwill reserve HK\$000	Asset revaluation reserve HK\$000	Retained profits HK\$000	Total HK\$000
At 1st April 2000	-	14,878	(1,522)	-	3,824	17,180
Net profit for the period	-	-	-	-	9,577	9,577
Dividend	-	-	-	-	(5,700)	(5,700)
At 30th September 2000 and at 1st October 2000	-	14,878	(1,522)	-	7,701	21,057
Net profit for the period	-	-	-	-	5,236	5,236
At 31st December 2000	<u>-</u>	<u>14,878</u>	<u>(1,522)</u>	<u>-</u>	<u>12,937</u>	<u>26,293</u>
At 1st April 2001	-	14,878	(1,522)	20,823	4,168	38,347
Revaluation surplus	-	-	-	4,768	-	4,768
Minority equity holder's share of asset revaluation reserve	-	-	-	(477)	-	(477)
Premium arising from placing of new shares	28,800	-	-	-	-	28,800
Shares issue expenses	(15,000)	-	-	-	-	(15,000)
Transfer to share capital to pay up nil-paid shares allotted to shareholders	(3,400)	-	-	-	-	(3,400)
Net profit for the period	-	-	-	-	3,608	3,608
At 30th September 2001 and at 1st October 2001	10,400	14,878	(1,522)	25,114	7,776	56,646
Net profit for the period	-	-	-	-	766	766
At 31st December 2001	<u>10,400</u>	<u>14,878</u>	<u>(1,522)</u>	<u>25,114</u>	<u>8,542</u>	<u>57,412</u>

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the nine months ended 31st December 2001 (nine months ended 31st December 2000: HK\$5,700,000).

FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the nine months ended 31st December 2001 was approximately HK\$92,105,000, representing a decrease of approximately 16.56% compared with that of the nine months ended 31st December 2000. The unaudited consolidated gross profit for the nine months ended 31st December 2001 recorded a decrease of 25.48% to HK\$22,499,000, while net profit was approximately HK\$4,374,000.

Whilst the Group continued to develop and expand its market penetration in the region, the key market for decorative sheets in Guangdong province remained highly competitive. During the period, the activities of both local and overseas suppliers made it necessary to maintain sharp selling prices. This continued to affect both turnover and gross profit as the average price of our decorative sheets has decreased. The resulting decrease in gross profit margin was from 27.35% to 24.43%.

Selling expenses incurred during the nine months ended 31st December 2001 had gone up by more than 33% compared with the same period last year, mainly because of continued aggressive sales and marketing efforts focusing on our new products - postforming grade decorative sheets. However, the Board is confident that these measures will reflect favourably on future turnover and profits.

The Group's administrative expenses increased by HK\$2,068,000 during the nine months ended 31st December 2001. This is mainly attributable to the Group incurring additional professional fees following the listing of the Company's shares on GEM.

Finance costs amounted to HK\$3,337,000, an increase of approximately 79.70% over the corresponding period. This was mainly attributable to increased trade banking facilities.

BUSINESS REVIEW AND OUTLOOK

During the period under review, sales of high pressure laminates and postforming high pressure laminates continued as the Group's principal business. The effect of the global economic downturn, coupled with price competition among overseas and domestic manufacturers, continues to have a negative impact on our performance. To counter this, and to maintain our market share and position as the supplier of choice among core customers, the Group had to further reduce the selling prices. Looking ahead, the Board believes that unit prices of high-pressure laminates should shortly bottom out and anticipates a minor recovery and strengthening of unit prices in the second quarter of 2002.

In order to maintain and sustain profitability, the Group actively seeks to tap new revenue sources while reducing operating costs. The following strategies are being implemented:

a. Market Expansion

Appoint more dealers and expand the sales network to accelerate growth of market penetration in the PRC and Southeast Asia. The favourable results of the business achieved in the South East Asia region prove the effectiveness of our ongoing overseas marketing strategy, especially the successful establishment of new markets in Indonesia and Philippines.

b. Sales Reward System

Stimulate higher sales volume by implementing a new sales incentive scheme that rewards highly motivated and successful sales personnel.

c. Cost Control

Create a simpler, more efficient organisation structure by actively redeploying the Group's resources and personnel.

The PRC's accession into the World Trade Organization and hosting of the Olympic Games in 2008 presents a significant opportunity to our Group. To capitalise on this, we will strengthen our efforts to establish a better distribution network and capture a higher proportion of the PRC market.

Despite the difficult global economic situation, and the somewhat pessimistic market sentiment in this industry, the Group believes that with the dedication of top management and the full support of our staff, the Group will continue to find and implement innovative solutions designed to achieve the best possible results.

SUBSTANTIAL SHAREHOLDERS

Subsequent to the listing of the Shares of the Company on GEM on 2nd August 2001, the following entity had or deemed to have interest of 10% or more of the issued share capital of the Company, as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of voting power
Well Success Group Limited	319,680,000	66.60%

Well Success Group Limited is ultimately beneficially owned as to 20.8% by Mr. Wong Ben Koon ("Mr. Wong"), 20.8% by Mr. Ng Hon Fai and 58.4% by Advance Success Limited which is owned as to 50% by Mr. Wong and 50% by Madam Hon Ching Fong.

DIRECTOR'S INTERESTS IN SECURITIES

Subsequent to the listing of the Shares of the Company on GEM on 2nd August 2001, according to the register of interests required to be kept under Section 29 of the SDI Ordinance or otherwise notified to the Company pursuant to the minimum standards of dealings by the Directors as referred to in Rule 5.40 to 5.59 of the Rules Governing the Listing of Securities on GEM, the interests of Directors in the share capital of the Company and its associates were as follows:

Directors	Types of interest	Number of issued shares held
<i>The Company</i>		
Mr. Wong (Note 1)	Corporate	319,680,000 Shares
Madam Hon Ching Fong (Note 2)	Corporate	319,680,000 Shares
<i>Xingda Decorative Sheets Company Limited</i>		
Mr. Wong (Note 3)	Personal	3,118,127 shares
Mr. Ng Hon Fai (Note 4)	Personal	3,118,125 shares

Notes:

1. Mr. Wong is interested in the Shares through his interests in Well Success Group Limited which is owned as to 20.8% by Mr. Wong and 58.4% by Advance Success Limited, which is in turn owned as to 50% by Mr. Wong.
2. Madam Hon Ching Fong is interested in the Shares through her interest in Well Success Group Limited which is owned as to 58.4% by Advance Success Limited, which is in turn owned as to 50% by Madam Hon Ching Fong.
3. Mr. Wong is (a) the registered and beneficial owner of 3,118,125 deferred shares of HK\$1.00 each in Xingda Decorative Sheets Company Limited and (b) the registered holder of 1 deferred share of HK\$1.00 each and 1 ordinary share of HK\$1.00 each in Xingda Decorative Sheets Company Limited.
4. Mr. Ng Hon Fai is the registered and beneficial owner of 3,118,125 deferred shares of HK\$1.00 each in Xingda Decorative Sheets Company Limited.

SHARE OPTION SCHEME

As at 6th February 2002 (the date of this report), no options had been granted or agreed to be granted to any Director of the Company under the share option scheme which was approved by a written resolution of all the Shareholders of the Company on 18th July 2001.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Other than the share option scheme as described above, at no time during the nine months ended 31st December 2001 was the Company or any of its holding companies, fellow subsidiaries and/or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate and none of the Directors or their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such rights.

INTERESTS OF THE SPONSOR

On 23rd July 2001, Oriental Patron Asia Limited ("Oriental Patron") entered into a sponsorship agreement with the Company whereby, for a fee, Oriental Patron will act as the Company's continuing sponsor for the purpose of Chapter 6 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") for the period from 2nd August 2001 to 31st March 2004.

None of Oriental Patron, its directors, employees nor associates had any interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 6th February 2002.

COMPETING INTEREST

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in a business that competes or might compete with the business of the Group.

CHANGE OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Chen Guowei (“Mr. Chen”) resigned as an independent non-executive director of the Company on 18th December 2001 for personal reasons and commitments. The Board expresses its appreciation to Mr. Chen for his contribution to the Company. The Board appointed Mr. Yuen Kim Hung, Michael (“Mr. Yuen”), as an independent non-executive director with effect from 9th January 2002. The Board also extended its warmest welcome to Mr. Yuen as a member of the audit committee with effect from 9th January 2002. Following Mr. Chen’s resignation, and before Mr. Yuen’s appointment, the Company had only one independent non-executive director and was therefore unable to constitute an audit committee as required by Rules 5.05 and 5.23 of the GEM Listing Rules. In this regards, the Company applied for and obtained a waiver from the Stock Exchange releasing it from strict compliance with the relevant requirements under Rules 5.05 and 5.23 of the GEM Listing Rules for a period of one month until 17th January 2002.

AUDIT COMMITTEE

The Company established an audit committee comprising of two members, Mr. Mo Kwok Choi, and Mr. Yuen, both being independent non-executive directors of the Company since July 2001 and January 2002, respectively, with written terms of reference complying with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial process and internal control systems of the Group and to provide advice and comments to the Board.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities up to 6th February 2002.

By order of the Board

Wong Ben Koon

Chairman

Hong Kong, 6th February 2002